California’s Car Tax and the 1998 State Budget

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Contents

- "The surplus money should go to school funding"
- Answering the Spending Lobby
  - "California can't afford a tax cut"
  - "There is no public support for abolishing the car tax"
  - "Abolishing the Car Tax is Just Sending Money to Washington"
  - "Abolishing the Car Tax is Just a Tax Cut for the Rich"
  - "Abolishing the Car Tax is subsidizing automobiles"

Conclusion

Summary

There are ten major reasons to abolish the car tax this year. They include the regressive nature of the tax, the tremendous tax burden California motorists already bear, the fact that the automobile is a necessity of life for virtually every Californian, and the fact that taxpayers still have not been made whole for the crushing tax increase they suffered in 1991.

California's budget surplus is enormous. When Governor Wilson introduced his budget in January, it broke all prior spending records in the state, including a 12.6 percent increase in public school funding. The spending lobby hailed it as "(Wilson)'s best budget so far," with schools Superintendent Delaine Eastin saying she felt she had "died and gone to heaven." Since then, a budget surplus of $4.4 billion has materialized, a combination both of one time revenue surges as well as permanent economic growth.

The question of the 1998 budget is whether this money should be returned to taxpayers, or built into the already gargantuan ongoing spending base of the state.

Republicans are committed to returning the surplus to the people by abolishing the car tax over a five-year period. The gradual phase-out can be fully funded from a small portion of the surplus in the budget year, and a portion of the growth in state revenue over the next five years. It provides a dollar-for-dollar replacement of all local revenues and accords local governments stronger constitutional protection, more money and greater discretion over these funds than they currently enjoy. Because the car tax is not used for schools, the proposal has no effect on school revenues or the constitutional funding guarantee for the schools.

Democrats are committed to spending virtually the entire surplus, with increases to welfare and education spending (even above the Governor's proposals), while reducing the Governor's funding for local government by over a third of a billion dollars. They first proposed a temporary one-year, one-quarter cent reduction in the state sales tax, amounting to 1/19th of the tax relief proposed by Republicans over the five-year phase out. Their latest proposal is a permanent one billion dollar tax cut that, according to their figures, is only one fourth the size of the Republican plan.

The spending lobby has launched a frenzied attack on the proposal to abolish the car tax, centered mainly on the absolute falsehood that the legislation would reduce funding to local governments and schools. ACA 45 expressly gives local governments much stronger protection than they currently enjoy, and removes the backfill from the discretion of the legislature.

Meanwhile, arguing at cross-purposes, it is also argued that schools should receive the entire surplus. However, the Democrats do not propose to spend the surplus for schools. Of the $4.4 billion surplus, only $1 billion is proposed for school funding, as compared to the Governor's proposal of $1/2 billion in the May budget revision. The rest is dedicated to the myriad of special interests, including state employee salaries and welfare spending. Under the May Budget Revision, public school spending is slated to grow by 46 percent since FY 1995-96.

Why the Car Tax Must Go

One of the first and most commonly asked questions is "why the car tax?" Critics have suggested that other taxes should be higher on the list of taxpayer wrath. The capital gains tax, for example, is more harmful to job creation. Targeted tax credits could reward politically favored industries and corporations. The sales tax is not deductible on federal returns and thus would return more money to the taxpayer without sending a portion of the savings to Washington. The car tax is proportional to the value and length of ownership of the vehicle, so it is a relatively "fair" tax, compared to the graduated income tax. Why pick on the car tax, other than its visibility to taxpayers? There are at least ten major reasons to do so.

The car tax is the last vestige of an abusive tax system

California's car tax, or "Vehicle License Fee," is actually an "in-lieu" personal property tax. It dates back to the days when tax assessors would come into a taxpayer's house, inspect their belongings, and assess a "personal property tax" for the privilege of the family keeping their property for another year.

The problem with assessing this tax is that cars are the very essence of portability. The family sofa, radio and icebox were always quite easy to find and assess. But on tax day, nobody seemed to own a car.

In 1935, the Vehicle License Fee was enacted to run this portion of the personal property tax automatically through the Department of Motor Vehicles. Over the years, the abusive personal property tax was abolished, but the car tax escaped the efforts of post-war tax reformers. It was increased from the original 1.75 percent of value in 1935 to two percent in 1948.

In 1991, it was increased again by an average of $60 per vehicle, through an adjustment of the depreciation schedule. Prior to 1991, the vehicle was taxed on two percent of the value times a depreciation schedule that started at 85 percent and at the end of ten years bottomed out at five percent. The changes in depreciation included provisions that increased the first year from 85 to 100 percent, increased the permanent tax from 5 to 15 percent, and moved the automobile back up to the 100 percent level every time it is sold.

The related real property tax was capped at one percent of purchase price in 1978, through Proposition 13. If land value declines, later provisions in the constitution provide for a further reduction in the tax upon request of the taxpayer. The car tax has escaped such reform.

The car tax no longer bears any relationship to car-related services

The 1935 Motor Vehicle License Fee Act originally limited local governments to the expenditure of these funds for state purposes, including highways. In 1957, the law was clarified to limit the use of these funds for law enforcement, regulation and control of highway traffic and other state purposes.

In 1988, the law was amended to allow the use of the car tax for any purpose, and in 1991, 25 percent of the funds were earmarked for realignment of health and social service programs. Thus, any linkage between the car tax and roads was obliterated.

Interestingly, the Department of Motor Vehicles today includes an insert with renewal notices. It is a pie chart that suggests that about one third of the renewal fee is dedicated to highways and highway-related services. It is obvious that the bureaucracy still considers it good public relations to suggest a linkage between the car tax and highways. Unfortunately, it is not true. This bureaucratic deception is accomplished by lumping into the revenue chart taxes such as commercial weight fees paid by truckers that do go for road construction, thus leaving the false impression that a portion of the check written by the motorist is also going for roads. It is not.

Abolishing the car tax simply restores the overall rate of taxation to the pre-1991 level

In 1991, Californians suffered the largest single tax increase ever imposed by a state in American history. According to revenue estimates made at the time, the entire package – including a $900 million increase in the car tax – amounted to $8.2 billion in additional fees and taxes, or about $1,100 per family. The tax increase, enacted in the midst of a recession, broke the back of California's economy. Although some of those taxes were repealed or expired, many are still on the books. According to an analysis by Dan Morain of the *Los Angeles Times*, "Tax increases at the start of Wilson's administration in 1991 hover at $3.6 billion a year above recent cuts – and that does not include many fees that have increased in the 1990's."

Those fees not included in Morain's analysis include massive increases in local government fees and taxes to offset state raids on local property taxes in 1992 and 1993, discussed below.

The car tax currently accounts for $3.9 billion in revenues, including $3.3 billion for personal automobiles and $600 million for commercial vehicles. Thus, phased out over five years as proposed in ACA 45, it amounts to about half the size of the tax increase imposed in a single blow in 1991. Combined with other tax cuts over the last few years it merely restores the overall rate of taxation to about what it was prior to adoption of the 1991 budget. This figure is exclusive of the $14 billion of annual revenue growth since 1991, generated by an expanding economy.

The car tax is a tax on a necessity of life

For Californians, the car tax is a tax on a necessity of life. This is a tax that strikes at the heart of every family struggling to make ends meet. It is a tax on their ability to get to work. It is a tax on their ability to get their kids to school. It is a tax on their ability to go to the grocery store and the doctor. It is a tax on their ability to lead their lives.

The issue of taxing necessities of life has a long history in California public policy. The sales tax, for example, exempts food products and prescription drugs for precisely this reason. When in 1991 the Governor and Legislature attempted to extend the sales tax to "snack foods" and bottled water, they were rebuffed by voters, who immediately repealed these extensions of the sales tax.

The necessity of the automobile is also recognized in relation to welfare-to-work programs. Under state law, cash grants are available for impoverished workers to keep their cars operating so that they *can* get to work. Indeed, Ventura County recently enacted a program that provides free or subsidized automobiles for welfare-to-work participants. California's confiscatory car tax runs directly counter to this policy objective.

A Richmond California woman writes:

"I am a SSI recipient living on a fixed income. Everyone in my community with whom I have discussed the issue addressed by AB 1776 are also in support. Although I own a car it is just sitting because I cannot afford the high registration fees. When I bought the car I did not realize that the registration fees would be as high as $275 a year. Also I had to choose between paying my property taxes or pay the registration fees. Naturally I chose to pay my property taxes.

"As most people who have to live on a fixed income I am faced with transportation problems. I have difficulty getting to and from medical appointments, shopping for food and other goods, going to church and to attend my parents who are elderly and debilitated. Many in our communities who are welfare recipients are required to seek and obtain employment. One of the main obstacles faced by persons in this category concerns the issue of reliable transportation. Public transportation is not always available, the service does not extend to the areas where the possible job is located, what transportation is out there is may be limited in routes served and hours of operation. Therefore a source of reliable transportation is needed which means owning or having a car."

Californians bear one of the heaviest tax burdens per vehicle in the country

California motorists are one of the most heavily taxed classes in society, paying 47 different taxes, fees, or mandates according to one count. Indeed, according to data compiled by the California State Library's Research Bureau, Californians bear the 3rd heaviest per vehicle tax burden in the nation.

They pay state and federal excise taxes on gasoline, sales taxes on gasoline, sales taxes on vehicle purchases and even sales taxes on the excise taxes. They pay a variety of surcharges for call boxes, air quality management, abandoned vehicles, tire disposal and fluid disposal. They pay fees for driver's licenses and registration transfers. They pay higher prices for oxygenated gasoline, smog devices, electric car subsidies and safety gadgets. They pay for mandatory smog inspections and mandatory insurance, and are then taxed on the mandates. They pay tolls and traffic fines and surcharges on traffic fines.

And in addition to all this, they pay one of the heaviest car taxes in the country, averaging $185 per vehicle per year.

Indeed, according to the California Motor Car Dealers Association, more than $1.3 billion in new taxes have been imposed on California motorists in the 1990's. These measures included AB 31 (Klehs), AB 758 (Bates), and SB 179 (Deddeh) of 1991, enacting the $769 million increase in vehicle license fees; SB 184 (Kopp) of 1991, raising the registration fee from $22 to $27 for $95 million; AB 2181 (Vasconcellos) and AB 179 (Deddeh) of 1991, raising the sales and use tax rate by 1.25 percent for an increased tax to new car buyers of $360 million; AB 1485 (Speier) of 1993, raising the vehicle transfer fee from $9 to $10 for an increase of $2.8 million; AB 2949 (Vasconcellos) and AB 3080 (Katz), adding $1 to the registration fee for an increase of $19 million, and AB 1591 (House) of 1997, raising the registration fee from $27 to $28 and transfer fees from $10 to $15. In addition to these taxes, legislation was also signed that imposed a $300 fee on all out-of-state vehicle transfers, and most recently, a $4 annual "smog abatement" tax on late model vehicle owners.

California motorists are about to experience huge increases in SMOG II fees and costs

In addition to the astronomical taxes that California motorists already bear, they are now being socked in many counties with dramatic increases in smog inspection fees – up 300% in some cases. In addition, the SMOG II regulations are failing cars in record numbers, running up backbreaking repair costs for motorists with the least means to pay for them. For many of these motorists, abolishing the car tax simply makes it possible for them to afford their new inspection fees and repair bills.

California's car tax provides a perverse incentive for motorists to shed older higher-polluting vehicles for newer, less polluting ones

Some left-wing environmentalists oppose abolishing the car tax because they believe the automobile is inherently evil and its use ought to be discouraged with confiscatory taxes. According to the California Sierra Club, for example, abolishing the car tax would "further subsidiz(e) the negative environmental impacts associated with vehicle ownership…Vehicle license fees are a small price to pay for imposing such heavy costs on society."

Ironically, the car tax actually works against the interests of more rational environmentalists who believe the principle goal should be to get the oldest and most polluting automobiles off the roads.

The car tax does precisely the opposite. As currently structured, California law immediately pushes the depreciation schedule for the car tax up to 100 percent every time the car is sold or re-sold. Furthermore, the car tax is a large and continuing impediment to the ability of individuals to afford a new or newer car – it affects their ability to obtain financing and pushes back decisions to upgrade automobiles, sometimes by years.

According to a recent economic analysis by General Motors, abolishing California's car tax would produce a nine percent increase in new car purchases with a ripple effect throughout the automobile market. This means the earlier junking of old, high polluting automobiles and the earlier acquisition of newer, less polluting vehicles.

California's high car taxes have produced an array of tax avoidance efforts by people and businesses registering vehicles out of state

California's excruciatingly high car tax produces an irresistible incentive for people and businesses to register their automobiles out of state. It should be noted that Oregon has no car tax, the Arizona legislature this year voted to reduce its car tax, and a ballot measure to do the same thing in Washington State will be voted upon this November.

The California Highway Patrol reports that a whopping 16% of all citations issued are for expired or out-of-state license plates. This is a 16% diversion of Highway Patrol attention away from public safety duties. Meanwhile, many companies with a multi-state presence legally register their vehicles out-of-state to avoid California's astronomical tax, denying California legitimate revenues it might otherwise receive. These incentives will intensify as more and more states abolish their car taxes.

Abolishing the car tax is the only option that will have no effect on the Proposition 98 school funding guarantee

Every other major tax cut has serious Proposition 98 implications. Reducing the sales tax or income tax, for example, directly impacts the formula upon which the Proposition 98 calculation is made. A reduction in revenues from these sources produces a proportional reduction in the revenues guaranteed to the schools.

Because the car tax is outside the general fund, it is not used to fund local schools nor is it used to calculate the Proposition 98 guarantee. As far as Proposition 98 is concerned, the car tax simply does not exist. And because the local government backfill is funded from existing sales tax revenues, the entire state revenue reduction comes from the non-education side of the budget, with absolutely no effect on the school apportionment calculations.

The 1998 State Budget

The introduction of the 1998 state budget in January was widely hailed by liberals in government

Before proceeding with a discussion of how abolishing the car tax affects the overall state budget picture and the effects it would have on various aspects of state and local finance, it is important to look at the state budget as a whole. As introduced in January, the Governor's proposal was a $73.8 billion spending plan. It included a 4.5 percent increase in general fund spending and a $2.9 billion – or 12.6 percent - increase in funding for public schools. It was widely hailed by the spending lobby – and criticized by taxpayers - for its liberality. Ironically, the appearance of $4.4 billion of new revenue (actually $4.2 billion of new revenue and $0.2 billion of entitlement reductions) has produced heated opposition from the Left. It is centered on the suggestion that a portion of the new money should be returned to taxpayers, and the balance used for one time expenditures and reserves.

The Governor's 1998 state budget produced universal acclaim from the Left. Senate Democratic President Bill Lockyer called it "(Wilson's) best budget so far." Senate Democratic Budget Chairman Mike Thompson said, "We ought to change about six things and pass it next week." State schools superintendent Delaine Eastin had the most ecstatic words. "I feel like I've died and gone to heaven," she said. "This state budget is clearly good news for California's school children."

Indeed, the only public criticism came from conservatives who complained that there was nothing in the Governor's budget for the taxpayers.

The May Revision added $4.4 billion of additional revenues to the Governor's January budget

A vigorously expanding economy dramatically increased the revenues available since the Governor proposed a budget that had liberals thinking they had "died and gone to heaven." General fund revenues increased $1.7 billion for the current year, and $2.5 billion in the budget year, for a combined total of $4.2 billion. Declining caseloads further reduced programmed expenditures by an additional $200 million. Since then, the UCLA Economic Forecast has predicted slightly faster economic growth than that upon which the May Revision was based.

What lies $4.4 billion beyond fiscal "heaven?" According to Delaine Eastin, it is the "third world." "You can't have world-class schools on a Third World budget," she complained as billions of new dollars rolled into the state's treasury.

With the windfall, the Governor proposed adding to his January schools budget another $522 million, bringing the one year increase to $3.4 billion, or 15 percent. More "good news for California's school children?" Not exactly. "He's still giving the schools money as if we are in a recession," sniffed Delaine Eastin. "He's going to give us a few nickels to shut us up."

The choice of the 1998 budget debate therefore becomes whether to spend the surplus, or return it to the taxpayers.

Surplus Options

Democratic Speaker Antonio Villaraigosa best summarized this basic policy choice when asked if Democrats were prepared to return a portion of the budget surplus. He said, "Well, we are giving it back to the people if we spend it on their children and invest it in our public schools; we're giving it back to the people if we leave the vehicle license fee alone and let local government spend that money…"

Abraham Lincoln summarized the opposing view:

"That is the real issue. That is the issue that will continue in this country when these poor tongues of Judge Douglas and myself shall be silent. It is the eternal struggle between these two principles – right and wrong – throughout the world. They are the two principles that have stood face to face from the beginning of time; and will ever continue to struggle. The one is the common right of humanity, and the other is the divine right of kings. It is the same principle in whatever shape it develops itself. It is the same spirit that says, 'You work and toil and earn bread, and I'll eat it.' No matter in what shape it comes, whether from the mouth of a king who seeks to bestride the people of his own nation and live by the fruit of their labor, or from one race of men as an apology for enslaving another race, it is the same tyrannical principle."

Assembly Republicans have proposed a five year phase-out of the car tax. Governor Wilson has proposed a 75 percent reduction. Democrats first proposed a temporary one-quarter-cent reduction in the state sales tax for one year, and more recently a permanent $1 billion reduction in the $3.9 billion car tax.

Abolish the Car Tax

The Assembly Republican proposal is outlined in this office's February 18and incorporated into ACA 45. Originally drafted before the surplus revenues had materialized, the plan is a total phase-out over a period of five years. It is accomplished by a $5,000 per year reduction in the vehicle's valuation upon which the two percent tax is assessed, until the fifth year when the tax is abolished. The effect is to remove one third of all automobiles from the tax rolls immediately (those purchased for under $5,000) and one half of all automobiles the following year (those purchased for under $10,000). th and March 31st policy papers,

The five-year phase-out allows for a minimum of fiscal dislocation. The first fiscal year requires only $600 million to begin the phase-out, or about one seventh of the surplus. The steepest incremental revenue loss of $1.2 billion occurs during the second year, and can be financed through revenue growth alone even if that growth falls to 3.5 percent. The final three years require a declining percentage of revenue growth, until the fifth year when the phase-out is complete and the growth rate resumes its normal pace.

The Department of Finance currently projects a growth rate in general fund revenues of 7.5 percent for FY 1997-98 and 4.7 percent for FY 1998-99. Using a modest general fund growth rate of 3.5 percent for FY 1999-00, natural revenue growth alone should produce sufficient non-Prop 98 revenues to sustain the $1.2 billion first-year increase in the fiscal impact of ACA 45. The marginal impact is significantly less in the out-years, meaning that state general fund revenues available for growth should be easily sustainable after FY 1999-00.

The car tax is a state special fund tax that is restricted to city and county general fund use, and therefore has no impact on education spending. Because of this, the school funding guarantee contained in Proposition 98 is entirely unaffected by abolition of this tax, and it will continue to grow unimpeded.

ACA 45 provides a dollar-for-dollar replacement of revenues for local governments. It adds Article XXIII to the state constitution and reads in part:

> "SEC. 2. (a) For the year 1999 and every year thereafter, there shall be transferred from the Retail Sales Tax Fund an amount equal to the difference between the vehicle license fees collected under Section 1 and what would have been collected pursuant to the applicable statutes in force on January 1, 1998. The money transferred pursuant to this section shall be deposited into the Sales and Use Tax Account of the Local Government Independence Fund, which is hereby created.
>
> "(b) On July 1 of each year, the Department of Motor Vehicles shall calculate the amount to be transferred pursuant to subdivision (a). The Department shall report that amount to the Department of Finance, the Controller, and the Treasurer.
>
> "(c) The money in the Sales and Use Tax Account of the Local Government Independence Fund is appropriated for allocation by the Controller to each city, county, and city and county pursuant to statute."

The Department of Motor Vehicles will continue to assess and apportion the tax revenues according to the current VLF tax rates, but will fund the apportionments from existing state sales tax revenues, rather than from annual assessments on motorists. The apportionment is accorded the same constitutional protection that Proposition 98 provides for schools, and has three advantages for local governments compared with current law.

First, the constitutional protection is stronger. Under Proposition 47, the state legislature cannot raid VLF funds, but it has the power to lower them at any time by simple majority vote. A case in point is SB 1782, (Thompson) a majority vote bill now in the final stages of enactment in the legislature. It exempts from the car tax "low emission vehicles" with no backfill to local governments. This bill would not be possible under the protections in ACA 45. Under ACA 45, not only is the legislature prohibited from raiding the replacement funds, it is also prohibited from reducing them.

Second, local governments receive more money. Under current law, the Department of Motor Vehicles assesses a seven percent "fee" for the collection of this tax – nearly $200 million annually. Because there is no collection cost for the replacement revenues – they are coming from an existing revenue stream – this savings is passed on to local governments.

Third, under provisions of the 1991 realignment legislation, counties are restricted as to the use of 25 percent of their VLF revenues for county mental health services. ACA 45 restores full discretion to these counties to apply these funds according to their best assessment of their own needs.

The revenue loss comes from the growth rate on the non-education side of the state budget, and will not even affect existing state spending programs – it only slows the growth over the five year phase-out.

Reduce the Car Tax

Governor Wilson has proposed a 75 percent reduction in the car tax, by reducing the two percent tax rate to one percent effective immediately, and from one percent to one-half percent effective on January 1, 2002. This plan has both advantages and disadvantages over full abolition.

The most immediate advantage is a much greater immediate impact on taxes paid by motorists. The maximum immediate reduction under ACA 45 is $100 per vehicle. Under the Governor's plan, the tax bill is immediately cut in half. Thus, the Governor's plan provides $995 million of direct tax relief the first year, compared to $600 million under ACA 45. It is not until the third year that ACA 45 provides greater overall tax relief than the Governor's plan.

The differences are summarized in the following chart:

Comparison of VLF Proposals ***(in billions)***			

Fiscal Year	Expected VLF Revenues	Governor (SB 1998)	McClintock (ACA 45)
1998-99	3.9	1.0	0.6
1999-00	4.1	2.1	1.8
2000-01	4.3	2.2	2.9
2001-02	4.6	2.8	3.7
2002-03	4.8	3.6	4.5
2003-04	5.0	3.8	5.0

Source: Legislative Analyst's Office

There are, however, a number of disadvantages with the Governor's plan compared to ACA 45.

First, no vehicles are ever removed from the tax rolls. The tax rate is simply reduced across-the-board. This carries the corollary disadvantage of leaving in place a tax system whose rates could be adjusted upward by the legislature at any time the state chooses.

Second, the measure carries no constitutional protection for local governments, making local finances dependent on future state budget deliberations. The Governor has addressed this by suggesting double joining the tax cut with a constitutional provision to be placed on the November ballot, although no such measure has as yet been introduced.

Third, the steeper initial revenue impacts have caused some concern, most notably by the Legislative Analyst's Office, that state revenue growth may not be sufficient to accommodate the reductions without actual spending reductions. This is a matter hotly disputed by the Governor's Department of Finance.

Finally, the tax relief is substantially less than ACA 45. The car tax currently costs taxpayers $3.9 billion. The Governor's plan provides what amounts to a $2.9 billion tax reduction in current-year dollars, leaving Californians still paying about $700 million more than they would have without the tax increases of 1991. ACA 45 leaves them $300 million better off. Although the Governor's plan claims $3.6 billion in tax relief – this is five years out, with the difference attributable to normal economic growth. By means of comparison, five years out the full abolition accounts for $5 billion of tax relief.

The Democratic Alternatives

The Temporary Sales Tax Cut

After many months of opposing any reduction in the car tax, Democratic leaders on July 2the start of the budget year) proposed a temporary one year, one-quarter cent reduction in the state sales tax amounting to a one time $1 billion tax cut. It did nothing to address the advantages of abolishing the car tax.nd (two days after

First and foremost, it was a tiny fraction of the overall tax relief proposed by either Assembly Republicans or the Governor. The cumulative five-year tax savings to Californians under ACA 45 is $18.5 billion. Under the Governor's plan, it is $15.5 billion. Under the Democratic proposal it is $1 billion. Indeed, in order for an average two-car family to benefit as much from the Democratic plan as ACA 45, that average family would have to spend nearly $150,000 for taxable purchases during a six month period. The Democrats' response to working families was literally, "Let them buy yachts."

It did nothing to complete the job Californians began in the 1940's when the abolished the personal property tax. It did nothing to address the inequity of a tax on motorists that bears no relationship to services required by motorists. It left California taxpayers no better off than they were before, still paying more than $3.6 billion above the tax rates of 1991. It continued to tax a necessity of life for most Californians. It did nothing to address the crushing level of taxation heaped on California motorists. It did nothing to offset the huge annual increases in SMOG II fees that motorists in most parts of the state are now facing. It did nothing to correct the perverse incentives that are causing thousands of Californians to retain older, higher polluting vehicles rather than turning them in for newer, less polluting ones. It did nothing to address the tremendous tax disparities that are causing untold numbers of businesses and individuals to register their cars outside of California.

Nor did the Democratic sales tax proposal address their own criticisms of car tax abolition.

Democrats object that the car tax benefits the rich more than the poor, because the rich buy more expensive cars. However, the same is true of the sales tax. Under the Democratic plan, a wealthy family buying a $50,000 luxury car will save $125 of sales tax, but a working class family buying a $5,000 used car will save just $12.50. The rich get a much larger tax break than the poor – and neither does very well.

Democrats also object to the fact that commercial vehicles also receive a portion of the abolition of the car tax. Yet businesses also receive a substantial portion of any sales tax reduction.

Thus, in addition to the paucity of the size of the Democratic tax cut – five to six percent of the Republican plans over a five year period, it neither addresses the reasons in favor of abolishing the car tax, or even their own objections to abolition of the car tax.

The Car Tax Credit

The Democrats quickly retreated from this proposal, in favor of a more intricate plan to provide taxpayers with a refundable income tax credit amounting to 70 percent of the car tax, up to a maximum of $130 per vehicle. The plan excludes any vehicles for which a depreciation deduction is claimed. Even this modest tax relief is repealed if projected state revenues fall below the estimates of revenue in the Governor's May budget revision.

The plan falls far short of the Republican proposal, and fails even to meet the objections that Democrats have raised to the Republican proposal.

The Democrats' plan is one fifth the tax relief provided under the Republican plan when fully phased out, and less than one third of the relief over the five year phase-out.

Because of the per vehicle cap, the Democrats' tax cut will fall far behind economic and inflationary growth over time. The average per vehicle car tax is $185, while Democrats cap the amount at $130. Thus, the tax cut will not keep pace with normal economic growth, or with inflationary growth. For example, a $20,000 car would receive $400 of tax relief under the Republican plan and $130 under the Democrats' plan. Five years later, at a four percent annual inflation rate, that same $20,000 car now sells for $24,333. Under the Republican plan it now saves $486. Under the Democrats, it still only saves $130.

The Democrats' plan leaves out small business people, self-employed people, and small entrepreneurs

This is particularly ironic in light of Democratic rhetoric on the issue. For example, one Assembly Democrat, in answering letters in support of the car tax, writes, "My biggest tax relief priorities are to reduce the burden on working families, entrepreneurs and small businesses."

It is difficult to reconcile this claim with provisions of the measure which deny even the modest Democratic tax reduction precisely to working families, entrepreneurs and small businesses. The measure denies the tax cut to any vehicle upon which a depreciation deduction is claimed. This is the deduction used by self-employed workers who use their personal car for their work. It includes Realtors, farmers, salespeople, handymen, gardeners – small entrepreneurs and self-employed people of every variety. None would receive a dime of tax relief under the Democrats' plan.

The Democrats' plan leaves the entire tax structure in place and adds to existing bureaucracy

The Republican plan means at least a $150 million reduction in state bureaucracy, a savings that is passed on to local government. This is because of the collection costs incurred by the Department of Motor Vehicles of the VLF. Under the Republican plan, the VLF is abolished, and collection costs are eliminated. Under the Democratic plan, the entire car tax is maintained, as is the massive bureaucracy required to collect it. It doesn't stop there. Because the tax credit is refundable, and can therefore be claimed even without a tax liability, the bureaucracy of the Franchise Tax Board will need to be increased to process additional tax returns, and to verify eligible claims.

Furthermore, the entire car tax structure is maintained. Taxpayers will remain exposed to future increases in the tax, which will not be offset by the tax credit because of the $130 cap. They will also remain exposed to the exorbitant fines for late payment of fees. Finally, because taxpayers remain fully liable for the car tax, and can only claim the partial offset as a tax credit, they are placed in the position of making what amounts to an interest-free loan to the state. For an average two-car family, this amounts to a $47 surcharge on their $260 of tax relief at a normal credit card interest rate of 18%.

Local governments are placed at greater risk under the Democrats' plan

Under the Republican plan, local governments receive stronger constitutional protection and more money than current law. Under the Democrats' plan, local governments are at greater risks of losing these funds.

They receive greater constitutional protection, because under current law, although the legislature cannot raid car tax revenues, it can reduce them at any time by majority vote, with no backfill to local government. There are measures to do precisely this in the final stages of legislative approval this year. Under the Republican plan, Article XXIII of the state constitutional will prohibit not only legislative raids of these funds, but also will prohibit any reduction in them.

This is of crucial importance in understanding the perverse incentive the Democrats give the state to cut local government VLF revenues in the future. The Democratic plan requires $1 billion of annual tax relief from the state's general fund. If a future state legislature wanted to conserve a half billion dollars, it could do so in one of two ways. It could increase income taxes by reducing the credit, exposing the legislators and the governor to the charge that they had raised taxes. Or, it could actually increase its own revenues by reducing the car tax and thereby reduce the cost of the state tax credit. By so doing, legislators could take credit for reducing the VLF while actually increasing their own coffers. Local government ends up holding the bag.

Under the Republican plan, the state cannot reduce VLF replacement revenues to local governments for any reason.

The Democrats' plan increases revenue loss due to federal tax deductibility

The Democrats have vigorously criticized the Republican plan, because "it would send millions of dollars to Washington." This is because taxpayers that itemize can claim their car tax as a deduction on their federal income taxes. Abolishing the car tax denies to these taxpayers the deduction.

Actually, according to the Legislative Analyst's Office, this applies to only about 40 percent of taxpayers, and even so only reduces the taxpayer savings by 15 percent. The 60 percent of taxpayers that itemize receive the entire benefit of the tax cut.

Although Assembly Speaker Villaraigosa claimed on July 8he is wrong. In fact, both the VLF and the state income tax are deductible for those who itemize. By reducing the state income tax, the Democrats encounter their own argument: that reducing the tax is slightly offset by increasing the federal tax liability. The irony is this: many more who itemize people claim the state income tax as a deduction than claim the car tax as a deduction. The Democrats' plan actually sends more money to Washington than the Republicans'.th that the Democratic plan addresses this issue,

The Republican plan can be accommodated during an economic downturn; The Democratic plan self-destructs

As is discussed elsewhere in this paper, the Republican plan for a five year phase-out was developed without the additional revenue from the May budget revision even in mind. Because the five year phase-out provides for a more gradual revenue impact, it can be financed from a portion of growth in the non-education side of the budget even if that growth slows substantially. Indeed, the biggest revenue loss occurs in the second year, and requires $1.2 billion. This is possible to finance from non-education revenue growth alone, even if the growth rate slows to 3.5 percent.

The Democratic plan self-destructs if even one year of the five year projections of the Department of Finance fall below projections. Thus, even if revenues wildly exceed DOF forecasts in four of the five years, the slightest reduction below the forecast in any one year causes the automatic repeal of the entire act. It is very deliberately designed to self-destruct, thus exposing it as a farce.

Spend It

The real Democratic option is to spend as much of the surplus as they politically can.

At this writing, nine days into the new fiscal year, the Democrats have still not indicated what cuts they would make in their proposed increases even to accommodate the one-time tax cut they have proposed. But based on the budget bills adopted in May, much of the increased spending is not for schools or local governments, but for welfare. Indeed, local governments sustained substantial cuts.

Specifically, the Assembly Democratic budget bill (AB 1656 – Ducheny) proposed adding to the Governor's May Revision $691 million for public schools, $246 million for higher education, $534 for welfare, and $165 million for state employee raises. Ironically (considering the car tax debate), the Democrats *cut* $185 million from local government and cut $162 million from local flood control subventions, for a combined cut to local government of $347 million. They rejected the Governor's $995 million first year car tax reduction, substituting instead $539 million to restore the renter's tax credit.

Thus, the Democratic response to the May Revise was to slash the Governor's proposed tax cut by $456 million, raid local government funds by $347 million, increase university funding by $246 million and roughly divide the balance between welfare and K-12 schools. This is quite different than the Democratic rhetoric of support to local government.

The critics of abolishing the car tax fall into three general categories: Local surrogates, school surrogates, and the spending lobby itself.

Answering Local Government Critics

Much of the criticism by local government critics is based on gross misinformation about the details of the plan. For liberal local activists, it has become a mantra that cities and counties would lose money, or at least be liable to lose money under this plan. This is precisely the opposite of the truth.

"Abolishing the VLF will devastate local governments"

Liberal city councilmembers and county supervisors, and their bureaucracies, have repeated endlessly the horror stories of cuts in local police and fire protection, libraries, and other vital services if ACA 45 is adopted. Indeed, the farce has extended so far as local cities developing "doomsday" budgets based on the loss of their vehicle license fees. This is a theater of the absurd.

As discussed above, ACA 45 provides a constitutional mandate similar to Proposition 98 for schools, that replaces lost car tax revenues on a dollar for dollar basis. The Department of Motor Vehicles will still run their registration records, ascertain the purchase price of the vehicle, the depreciation schedule for that vehicle and the jurisdiction entitled to the revenues. The Controller then automatically releases these funds to the local governments concerned. This mechanism precisely mirrors the existing vehicle license fee, but instead of drawing from exorbitant renewal fees, it draws from an existing stream of state sales tax revenues. Any variation in sales tax collections is borne by the state – local governments are assured of a dollar-for-dollar replacement.

Furthermore, local governments will receive more money. Under current law, the Department of Motor Vehicles deducts seven percent of the funds collected to administer the program and collect the tax. Although the DMV will continue to administer the local government entitlements, the collection cost is precisely nothing, since it is tapping an existing stream of revenues. This should translate into as much as a five percent direct *increase* to local funds. This increase is exclusive of additional taxes that will be collected as a result of increased vehicle purchases. Economists at General Motors have estimated that the effect of abolishing the car tax will produce a nine percent increase in motor vehicle purchases. This means more money for local governments because of higher annual VLF entitlements as well as sales tax receipts from new vehicle purchases.

"Abolishing the VLF will leave local governments at the mercy of the legislature"

A second straw-man constructed by liberal local activists is that the replacement funds cannot be guaranteed, and given the state's record of raiding local government funds, it is reasonable to expect that future legislatures will pare down the "backfill," leaving local governments in the lurch.

This argument was well founded in the initial version of this legislation, AB 1776. But in direct response to this concern, AB 1776 was replaced with ACA 45 in April. ACA 45 establishes a constitutional guarantee stronger than the current protection for VLF revenues. As discussed above, current law protects local VLF funds from any raid by state legislatures, but does not protect them from a reduction in those revenues. A case in point is SB 1782 (Thompson), which reduces VLF revenues to local governments by exempting "low emission vehicles" and is now in the final stage of legislative enactment. Similar measures are pending to exempt other classes of vehicles, all at local government expense. ACA 45 prohibits *any* reduction to the replacement fund, giving local governments a Proposition 98-type protection over these revenues. Indeed, the protection is stronger. Proposition 98 can be suspended by a 2/3 vote of the legislature. ACA 45's protection is absolute.

"Abolishing the VLF will place pressure on state revenues, encouraging future raids on non-protected local sources"

When forced to concede that local governments will receive more money and stronger constitutional protection under ACA 45 than under current law, the next argument is that *any* reduction in state revenues will cause future legislatures to cast a longing eye on other, non-protected sources of local funds when the economy sours.

This is actually an argument against state revenues in a down-turn and send the legislature looking for other funds to raid.*any* tax cut at *any* time – since any state tax cut will conceivably pinch

But it is very poorly reasoned. The alternative to a tax cut now is to spend all of the new revenues flooding and overflowing the state treasury. The constitutional impact of this option is to build this spending into the state’s budget base. In the case of more than 40 percent of this revenue, it is constitutionally locked into place by the Proposition 98 funding guarantee. The rest of the spending is built into new programs that rapidly develop politically potent constituencies. In either event – spending the money or returning it to taxpayers – a downturn in revenues will send the state searching for unprotected funds of every variety. Past experience has shown that in the battle against the spending lobby, and particularly the schools lobby, local governments fare very poorly indeed. A tax cut now probably leaves local governments in a stronger position than building more revenues into the state’s spending base – taxpayers are a much weaker rival than the schools lobby.

"Why doesn’t the state cut state revenues instead of picking on local revenues?"

This argument is a variation of the mantra that local governments are adversely affected by ACA 45, when in fact, they are helped substantially. In fact, the cuts come entirely out of state spending, or more precisely from a reduction in the growth rate in state non-education spending, during the five years of the phase-out. Thereafter, general fund growth resumes its normal course

In fact, the car tax is a state-established, state-administered and state-controlled tax used to support local governments. ACA 45 simply replaces one state tax used for the support of local government with another existing tax for the support of local government, with the state government shouldering the entire revenue loss. Other car tax abolitions across the country divide the revenue loss between state government, local governments, and the schools.

"The surplus is the result of previous raids on local government funds and ought to be returned to local governments – not the taxpayers."

Actually, local government revenues grew throughout the period of 1992 and 1993, even while the state was raiding local government coffers. The growth occurred because, as the state raided local property tax revenues, local governments imposed a dazzling array of local tax and fee increases on taxpayers to more than offset their revenue losses. Perhaps the most celebrated was the City of Port Hueneme, which imposed a "view tax" for any parcel that had a "view" of the ocean.

Below is a graph of aggregate city and county spending from FY 1986-1995. (The downturn in county spending in 1995 was caused by adjustments in health care funding, and was entirely unrelated to the property tax shifts in FY 1992 and 93).

Returning local revenues that were diverted to the state, without concomitant reductions in all of the tax and fee increases imposed by local governments would constitute a double whammy for taxpayers. They would end up shouldering the remaining tax increases of 1991 at the state level, while enduring the subsequent tax and fee increases at the local level.

Answering the Schools Lobby

Even though the Vehicle License Fee, or car tax, has nothing to do with school funding, the powerful schools lobby has weighed into the debate. Bear in mind that the car tax is not even used to calculate the funding formula for schools, and its abolition would not affect the near vertical growth rate in the schools’ budget – up 46 percent in the last three years, based on the Governor’s May Revision. Nevertheless, the schools lobby makes points similar to local governments: that this is money that should be going to local schools. It is a case of two arguments colliding with each other: if local governments are depending on the revenues, schools would be hurt; if schools are depending on the revenues, local governments would be hurt. Yet this obvious contradiction seems lost on the combatants. In fact, neither cause is affected: the revenue loss comes from the growth on the non-education side of the state budget; local governments are fully protected and the schools budgets continue to grow at record levels.

Nevertheless, let us review the arguments from the schools lobby.

"Abolishing the VLF will devastate local schools"

As repeatedly pointed out, the VLF has no impact on the schools or the funding formula for the schools. The actual objective of the schools lobby is not to protect existing funding levels or the growth rate in funding levels. Rather, it is to use the surplus revenues to permanently increase the Proposition 98 funding base in perpetuity.

Some historical perspective is needed. Before the state budget surplus materialized, schools were already slated for a one-year growth rate of 12.6 percent. The Governor’s May Revision brought the percentage to 14.5 percent. With the May Revision, the total three year increase grows from $17.8 billion in FY 1995-96 to $26 billion in FY 1998/99 – or 46 percent.

Even these numbers tell only part of the story, since they do not include local revenue or federal funds. All told, some $39.63 billion is slated for K-12 public schools under the May budget revision. Divided by California's 5.463 million public school children, this is $7,256 per student. This is more than twice the inflation-adjusted per pupil expenditure of $3,000 during the last year of the Pat Brown administration, when California schools were considered among the best in the nation.

And this is the crux of the issue: who is in a better position to spend this surplus revenue, the families that earned it, or the bureaucracies? In the case of education, this issue acquires added clarity. An average two-car family will save $370 by abolishing the car tax. What could this mean for the education of their children?

It means that family could now afford 40 new books – of their choosing year. It could mean the phonics tutoring their daughter desperately needs. It could mean a used computer for a family that has never owned one. Or it could mean Internet access and ten new educational software programs for that family every year.- for their children to read every

Or, it could be added to the $7,256 already spent per pupil in the California public schools.

"The surplus money should go to school funding"

This is the crux of the school lobby's argument: that instead of funding a replacement of local revenues, the revenue growth should be devoted to spending on the public schools, above and beyond the record increases cited above.

Because of provisions of Proposition 98, any increase in education funding above the school funding guarantee locks in higher and higher commitments of state revenue in perpetuity.

However, it should be noted that the five year phase-out of the car tax only requires a small fraction of the surplus dollars: $600 million out of $4.4 billion. Even if $1.7 billion of the surplus was devoted to pay-as-you-go capital construction needs (the equivalent of $3 billion of borrowed money), and $1 billion was used to rebuild the state's traditional three percent reserve, there would still be enough for the *first two years* of the five year car tax phase-out. And school spending would continue to grow at its unprecedented rate.

It should also be stressed that neither party is proposing spending the entire surplus – or even a major portion of it – on the schools. The Governor proposed to spend $512 million – or 11.6 percent of the surplus. The Democrats proposed to spend $1.203 billion – or 27.3 percent of the surplus. Thus, even the Democrats' plan proposes to spend only a fraction of the surplus on the schools. If the full $1.203 Democratic plan were to be adopted, there would still be $3.2 billion available for repeal of the car tax – more than five times what is needed for the first year.

Answering the Spending Lobby

If there is an ox that is gored by abolishing the car tax, it is the state spending lobby – the non-education and non-local government beneficiaries of government largess. And not to disappoint, they make their own arguments quite apart from the specious objections of the League of California Cities and the school employee unions.

"California can't afford a tax cut"

To place things in perspective, abolishing the car tax amounts to $4 billion – just half of the $8.2 billion of tax and fee increases imposed by the state in a single blow in 1991. Combined with other tax cuts since 1991, the effect of the abolition is simply to restore the overall rate of taxation to about where it was prior to adoption of the 1991 state budget. This calculation, by the way, does not include the massive local tax and fee increases imposed on taxpayers during the same period, and discussed above. It would still provide some $14 billion of natural revenue growth to state government from normal economic expansion.

The spending lobby's argument is reducible down to this simple prescription for ever-higher spending: the only responsible thing to do in a recession is to raise taxes; the most irresponsible thing to do during an expansion is to reduce them.

The Legislative Analyst's Office has issued a report widely quoted by the spending lobby and its allies. That report warns that much of the budget surplus is short-term, and the report predicts a budget shortfall caused by the Governor's plan. The report has been widely criticized on several grounds.

First, the report addresses only the Governor's plan, which provides a much steeper immediate revenue impact than the five year phase-out proposed by Assembly Republicans. As outlined above, the five year phase-out can be financed from one seventh of the surplus funds this year, and requires only a 3.5 percent growth rate in the second and biggest year of the phase-out to avoid any cuts in existing spending programs.

Second, the report is predicated on substantial increases in spending above current year levels, including a three percent annual increase in state employee salaries, and substantial increases in the spending base. As discussed above, even if $1 billion were committed to reserve, $1.7 billion to pay-as-you-go one-time school construction, there is still sufficient money in the surplus alone to pay *for two years* of the five year phase-out.

Third, the report is predicated on tepid predictions for revenue growth, below those of both the UCLA Economic Forecast and the Department of Finance.

"There is no public support for abolishing the car tax"

To say this is to ignore the overwhelming support that has already been shown for abolishing the car tax. Every major taxpayer group in the state, including the Howard Jarvis Taxpayers Association, People's Advocate, The Paul Gann Citizens Committee and the National Taxpayer Limitation Committee support full and total abolition of the car tax. In fact, these organizations have garnered over 30,000 petitions of support for AB1776/ACA45 and the Jarvis group reported the strongest response they have seen since Proposition 13.

What do the "real" polls say? In order to answer this question, some historical review of public opinion on tax issues in necessary, and a good place to start is Proposition 13. Proposition 13 was placed on the June, 1978 ballot after two failed attempts. In a last-ditch attempt to derail the popular initiative, the Legislature placed Proposition 8 on the same ballot. It was a greatly watered down version. Despite the heated debate in Sacramento, the February California Poll showed 70 percent of voters holding no opinion just four months before the election. Its base of support was only 20 percent of the electorate. Yet four months later, the measure passed with nearly 65 percent of the vote.

Attacks on the measure, using precisely the same arguments we are hearing today against repealing the car tax, the difference narrowed to within the margin of error, where it remained until early May. As Election Day approached and voter attention engaged, Proposition 13 went on to enjoy a landslide victory and the rest is history.When the spending lobby began its relentless

A similar story unfolded in the state of Virginia. At the beginning of 1997, no one, including popular Governor Allen, had been able to make the car tax an issue. By the end of 1997, Republicans had swept all of the statewide offices in the November elections, led by Jim Gilmore running for Governor on the issue of "no car tax." They went on to win seven special legislative elections taking control of both houses of the legislature for the first time since Reconstruction. A review of exit polling and discussion with Virginia experts, reveal two reasons for the success of the efforts to stop the car tax that are very similar to the situation in California.

The first is that local jurisdictions had been given authority to raise the tax and in some areas it had doubled in the past ten years reaching an average of 2.75% throughout the state. As more people became aware of the new rates, voter anger grew. Here in California, the 1991 adjustment of the depreciation schedule has taken several years to have its full impact on California families because new cars are only purchased every five to seven years. Furthermore, SMOG II requirements are forcing backbreaking increases in smog inspection and repair costs.

The second major factor in Virginia was the fact that Jim Gilmore used his statewide campaign to draw attention to the issue. Although the polling was neck and neck throughout most of the campaign, Gilmore shot ahead when President Clinton attacked the proposed abolition for taking money away from schools. Voters who had been skeptical of Republican vows to cut taxes since the days of George Bush began to take the measure seriously, and support both for the car tax abolition and for the candidate espousing that plan surged. In California the issue has been raised in the gubernatorial debates, and the budget battle itself has generated statewide exposure. Unlike Virginia, the reality of $4.4 billion surplus makes it difficult for the spending lobby to say California cannot afford such a tax cut.

In the end, exit polling showed that the Democrats handily won the support of those who were most concerned about the issue of education, but they were overwhelmed by those who wanted to spend a little more money for their own families.

The big question is what do the polls say here in California? It depends on whom you ask. The spending lobby points to a David Binder Research Poll from May of 1998 to show that "84% of California voters agreed that improving education is a higher priority than reducing taxes." The same poll showed that voters preferred using surplus budget funds for education over tax cuts, but apparently did not give the option of doing both, which can be done with a $4.4 billion surplus.

On the other hand, in the past few months, various legislative races have asked about a hypothetical initiative to lower the vehicle registration to the actual $30 it takes to run the DMV and support ranged between 71% and 75%. Statewide polling on the issue of repealing the car tax done in late 1997 showed the same two-to-one support that Proposition 13 had in the early part of the campaign. The same poll showed the ability to pass a repeal even if both law enforcement and education attacked the measure. Again, with the current budget surplus, it is very difficult for either group to make credible arguments against a repeal of the car tax.

"Abolishing the Car Tax is Just Sending Money to Washington"

This argument is based on the fact that the car tax is deductible for federal income tax purposes for taxpayers that itemize.

However, the Legislative Analyst's Office has this to say about the deductibility issue:

> "The VLF is tax deductible for the roughly 40 percent of Californians who itemize on their tax returns…In review of recent income tax data, it appears that many taxpayers who itemized did not claim the personal property tax deduction for the VLF. A percentage of these itemizers may not own a vehicle. However, many other itemizing taxpayers are either: (1) claiming the deduction as a business expense, (2) not claiming a deduction for which they are eligible, or (3) incorrectly claiming the deduction elsewhere on their tax form. Given this finding it is unclear exactly what percentage of any VLF reduction would be offset by increased income taxes. However, our best estimate is that less than 15 percent of the total VLF reduction for all taxpayers would be offset by increased federal income tax payments."

Not only is the federal tax deduction offset negligible, it is only enjoyed by the 40 percent of relatively affluent households that itemize deductions on their federal tax returns. Working class families who claim the standard deduction will enjoy the entire tax cut. Because of the progressivity of income tax rates, the deductibility argument further undermines the argument that this is a "tax cut for the rich." The higher the income, the more offsetting federal tax is paid.

But using the 15 percent average deduction cited by the Legislative Analyst's Office, the argument is reducible to this: it is better to forego a tax cut because 40 percent of filers will lose 15 percent of their tax deduction. This argument would support the proposition that we should double the car tax, thus doubling the deduction that the richest taxpayers can claim.

This argument is particularly disingenuous considering the Democratic proposal for a much smaller credit to state income taxes, which will actually cause a higher proportion of offsetting federal income tax liability.

"Abolishing the Car Tax is Just a Tax Cut for the Rich"

Quite the contrary. According to the Legislative Analyst's Office, "Although VLF paid increases with income, fees paid increase at a slower rate than income. *Therefore, lower-income Californians pay a higher share of their income in VLF than do higher income residents*." (emphasis added)

The real-life impact of this statement is brought home by a caller to KSTE-650 in Sacramento on April 20The caller said,th.

> "We were a two car family and because our family fell on hard times we were unable to pay for the registration for the second car, so in order to avoid having to pay the fine for it we registered the car as inoperable and then we planned on registering it again when we could afford it, but we had kept that car parked on the street because we only have a one car garage and while we were away for a few days the car was tagged for not having current registration and then when we came back we found out that the car had been towed, so in order to get our car back we had to pay – well, we don't have it back – we were going to have to pay for the towing fee, a fine, and then the per-day fee to the towing company, which, needless to say, we couldn't do it, so now we no longer have our second car and we also have a lien against us, so I am all for abolishing this."

Under the provisions of ACA 45, the very first cars removed from the tax rolls – immediately upon enactment -- are those that were purchased for under $5,000. The next year, those cars purchased for $10,000 are knocked off the tax rolls.

The argument is particularly disingenuous in light of the Democratic proposal for a temporary quarter-cent tax cut for one year. A rich family buying a $50,000 luxury car would save $125. A working class family buying a $5,000 car would save $12.50.

"Abolishing the Car Tax is subsidizing automobiles"

There is a small but vocal fringe element in California politics that views automobiles as inherently evil, justifying the stiffest possible tax burden. This view has obviously dominated California tax policy: California motorists bear the third heaviest tax burden per vehicle in the nation, and very little of these taxes provide for automobile related services. Indeed, California ranks 50th among the 50 states in per capita funding for roads, despite ranking 3rd in per vehicle taxes.

To the back-to-nature lunatic fringe, the heavy car tax is desirable to discourage ownership of cars. This is the element that Greg Lucas of the *San Francisco Chronicle* has called the "kum-by-ya *uber ales*" wing of the environmental movement.

The fallacy, of course, is that heavy taxation does not discourage automobile ownership. It ownership of the oldest and highest polluting automobiles on the road today. *encourages*

Conclusion

The car tax stands today as the most abusive tax on California's tax rolls. It is a tax on a necessity of life. It is a tax on a single class of citizens – motorists – that has no relationship to vehicle related services. Its unfairness has been recognized by 19 other states that have spared their citizens from this burden. This year, Virginia, South Carolina Kansas, Rhode Island, Kentucky, New York and Arizona have voted to reduce or abolish their car taxes. Washington State will vote this November on abolishing its car tax, and neighboring Oregon has no car tax.

When fully phased out in five years, abolition of California's car tax will amount to just half the size of the tax increase that was imposed in a single blow in 1991. It is proposed at a time when California has a $4.4 billion surplus and only requires a fraction of this surplus, plus of fraction of the state's revenue growth over the next five years, to accomplish. Local governments are completely protected from revenue loss, and actually receive stronger constitutional protection, more money, and greater discretion than they currently enjoy. The near vertical growth in the Proposition 98 education funding guarantee is unaffected in any way. State government will continue to grow, but at a somewhat slower rate over the next five years than it otherwise would.

But the crux of the debate is much simpler. It is a debate over whether these funds would be best spent by the families that earned them, or by the political powers of Sacramento.

Assemblyman Tom McClintock
The State Capitol, Sacramento
July 10, 1998